
From: Tim Stuart [REDACTED]
To: Phil Spencer
Sent: 12/4/2020 6:39:25 PM
Subject: RE: Xbox console volume

Good mail. Sounds like there is a yield discussion at SLT, but that doesn't solve all of the gap – it's more of noise in the system vs a true need to invest more earlier. I edited a few numbers in your mail below.

2nd bullet below, Amy did ask that we don't invest above the AM budget until we hit [REDACTED] meaning we should strive to exceed plan until the [REDACTED] target then invest additional from there. It will get a little washed as we move throughout the year, but might be good to acknowledge the ask.

4th bullet – might be good to highlight that we know we will likely be behind Switch and PS5 in the holiday volume due to supply, in addition to the comp vs Xbox 360

[REDACTED]

[REDACTED]

From: Phil Spencer [REDACTED]
Sent: Friday, December 4, 2020 10:14 AM
To: Tim Stuart [REDACTED]
Subject: Xbox console volume

Give this a read. Please fix any numbers.

I know there are a lot of discussions about Xbox console supply right now and I wanted to provide my pov on how we got here, our plan forward and more of a meta-commentary on our strategy. [REDACTED]

Some useful data points in Gaming:

- [REDACTED]

So when the question comes up about "why don't we have more Xbox consoles right now" there are many factors but I think we aren't really focusing on the right issue if we are focusing on the yield miss for Scarlett or the Halo launch date miss (both are execution issues, not ducking those, they are just not the main factors in our console scarcity).

[REDACTED]

Gaming makes sense for MS, imo, as the focus on consumer. [REDACTED]

[REDACTED] I can see no other clear consumer category with this TAM where Microsoft has the product truth today and customer demand that we have in Gaming and where the disruption that is happening in the business plays to some of Microsoft's long term strengths (cloud and subs).

On the capital allocation that we are making in Gaming, I believe our investments in content and xcloud are critical to realizing our potential in Gaming. Amazon Luna and Google Stadia do not have the console strength we have giving us developer engagement, gaming community and catalog of content. [REDACTED]

[REDACTED]

[REDACTED]

As a team we are starting to work through our FY22 plan. [REDACTED]

[REDACTED] I realize that what I'm typing is almost the exact definition of the innovators dilemma.

From a strategy perspective I believe in our tradeoffs for Cloud and Content in Gaming over console volume. I would obviously love to invest in all unconstrained but I completely support the tradeoffs we are making. With hardware timelines we can't be as agile on supply when our revenue or AM targets exceed budgets as we are seeing in FY21 (even without Halo). We are making Q2 and Q3 decisions to airfreight consoles this FY which will pull some volume forward given how our P&L is tracking but this is more of a timing fix than a volume fix. We need to plan our FY22 hardware volumes now. With our strategy and opportunity console volume will still be the thing we constrain to grow our long term ambition.

So while we talk about yield as our issue with Xbox Series S|X today, there is some small truth to that but in reality if our yield was on plan right now we'd feel the same constraints and customer sentiment. We could sell more consoles this year and next year, there is demand.

I'm happy to go deeper on the P&L investments if there is a desire. I realize there are a ton of decisions on spend, C19 impact on gaming release dates, XGP content investments etc. I believe in the tradeoffs we are making for our long term goals but there are near a mid-terms consumer engagement and console unit volume tradeoffs. I just wanted to ensure we were all aligned.

Phil